



House of Representatives

General Assembly

File No. 281

January Session, 2009

Substitute House Bill No. 6503

House of Representatives, March 26, 2009

The Committee on Commerce reported through REP. BERGER of the 73rd Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING THE S.A.F.E. ACT 2009.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective July 1, 2009*) (a) There is established a
2 fund to be known as the "State Assisted Fund and Exchange Fund".
3 The fund shall contain any moneys required by law to be deposited in
4 the fund. Any balance remaining in the fund at the end of any fiscal
5 year shall be carried forward in the fund for the fiscal year next
6 succeeding. The fund shall be used to provide secondary market
7 capital liquidity for certain state chartered banking institutions pursuant
8 to subsection (b) of this section and to pay reasonable and necessary
9 expenses incurred by the Commissioner of Economic and Community
10 Development in administering such capital under this section.

11 (b) The Commissioner of Economic and Community Development,
12 in consultation with the State Assisted Fund and Exchange Committee,
13 established pursuant to subsection (c) of this section, may enter into a
14 contract to provide (1) secondary market capital liquidity for state
15 chartered banking institutions authorized by the Commissioner of

16 Economic and Community Development to originate small and mid-
17 size business credit loans and credit facilities in the state, and (2)
18 liquidity to quasi-public and economic development agencies to
19 originate small and mid-size business credit loans to small businesses
20 on a local or regional level. Banks eligible for funds pursuant to this
21 section shall meet Banking Department licensing and lending
22 requirements and all such originations shall meet Department of
23 Economic and Community Development credit underwriting
24 guidelines. When funds are no longer available under section 2 of this
25 act, the Department of Economic and Community Development shall
26 exchange all originations as simple whole loans with the United States
27 Treasury for an amount that is not less than the total amount of all
28 originations, including the cost of originations.

29 (c) There is established a State Assisted Fund and Exchange
30 Committee, which shall be comprised of one employee from each of
31 the following: (1) The Banking Department, (2) the Office of Policy and
32 Management, (3) the Office of the State Treasurer, (4) the Office of the
33 State Comptroller, (5) the Connecticut Development Authority, and (6)
34 the Department of Economic and Community Development. Said
35 committee shall advise the Commissioner of Economic and
36 Community Development with regard to expenditures from the State
37 Assisted Fund and Exchange Fund, established pursuant to subsection
38 (a) of this section, including, but not limited to, developing guidelines
39 for eligibility for funds.

40 Sec. 2. (*Effective July 1, 2009*) (a) For the purposes described in
41 subsection (b) of this section, the State Bond Commission shall have
42 the power, from time to time, to authorize the issuance of bonds of the
43 state in one or more series and in principal amounts not exceeding in
44 the aggregate five million dollars. Any such issuance shall be subject to
45 the availability of federal funding.

46 (b) The proceeds of the sale of said bonds, to the extent of the
47 amount stated in subsection (a) of this section, shall be used by the
48 Department of Economic and Community Development for the

49 purpose of providing secondary market capital liquidity for certain
50 state chartered banking institutions pursuant to subsection (b) of section
51 1 of this act.

52 (c) All provisions of section 3-20 of the general statutes, or the
53 exercise of any right or power granted thereby, which are not
54 inconsistent with the provisions of this section are hereby adopted and
55 shall apply to all bonds authorized by the State Bond Commission
56 pursuant to this section, and temporary notes in anticipation of the
57 money to be derived from the sale of any such bonds so authorized
58 may be issued in accordance with said section 3-20 and from time to
59 time renewed. Such bonds shall mature at such time or times not
60 exceeding twenty years from their respective dates as may be provided
61 in or pursuant to the resolution or resolutions of the State Bond
62 Commission authorizing such bonds. None of said bonds shall be
63 authorized except upon a finding by the State Bond Commission that
64 there has been filed with it a request for such authorization which is
65 signed by or on behalf of the Secretary of the Office of Policy and
66 Management and states such terms and conditions as said commission,
67 in its discretion, may require. Said bonds issued pursuant to this
68 section shall be general obligations of the state and the full faith and
69 credit of the state of Connecticut are pledged for the payment of the
70 principal of and interest on said bonds as the same become due, and
71 accordingly and as part of the contract of the state with the holders of
72 said bonds, appropriation of all amounts necessary for punctual
73 payment of such principal and interest is hereby made, and the State
74 Treasurer shall pay such principal and interest as the same become
75 due.

This act shall take effect as follows and shall amend the following sections:

Section 1	July 1, 2009	New section
Sec. 2	July 1, 2009	New section

Statement of Legislative Commissioners:

In section 1(a) "by the Commissioner of Economic and Community Development" was inserted after "incurred" and in section 2(a), "provided the commission shall only authorize such issuance" was changed to "Any such issuance shall be" for clarity.

CE *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 10 \$	FY 11 \$
Department of Economic & Community Development	GF - Cost	See Below	See Below
Treasurer, Debt Serv.	GF - Cost	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill authorizes \$5.0 million in General Obligation (GO) bonds to the Department of Economic and Community Development (DECD) to provide secondary market capital liquidity for certain banking institutions. The total General Fund debt service cost for principal and interest payments on this amount over 20 years assuming a 5.0% interest rate, is \$7.6 million. The first year that the state will experience costs associated with the bonds depends on when they are allocated through the State Bond Commission and when the funds are expended.

The bill states that the fund will pay reasonable and necessary expenses incurred by DECD in administering the capital. DECD's administrative costs would be associated with contract execution and staff time to ensure that a third party contracted to originate small and mid-size business credit loans would meet DECD's credit underwriting guidelines. Such costs are estimated to be minimal and would cease when the bond funds are no longer available.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**sHB 6503*****AN ACT CONCERNING THE S.A.F.E. ACT 2009.*****SUMMARY:**

This bill authorizes \$5 million in bonds to support small business lending. The economic and community development commissioner must use the bond proceeds to provide capital to private and public lenders originating small and mid-size credit loans and credit facilities in Connecticut. In doing so, she must consult with a six-member interagency advisory committee the bill establishes.

The proceeds must be deposited in the nonlapsing State Assisted Fund and Exchange Fund the bill creates. The commissioner may use the funds to cover administrative costs to cover the reasonable and necessary expenses of providing the capital.

EFFECTIVE DATE: July 1, 2009

LIQUIDITY

The bill requires the Department of Economic and Community Development (DECD) commissioner to use the funds to provide the liquid capital (i.e., money) needed to make loans. She must provide liquidity to quasi-public and economic development agencies for originating small and mid-size business loans on a local or regional basis.

She must also provide secondary market capital liquidity to state-chartered banks she authorizes to originate small and mid-size credit loans and credit facilities. The latter lets a business borrow money for different purposes under one agreement instead of many separate agreements. The bill does not define “secondary market capital

liquidity” but the term seems to refer to the capital a lender receives when it sells loans to another party. The sale allows the lender to maintain or increase credit flows by replenishing its credit supply.

A bank qualifies for secondary market liquid capital if it complies with state bank licensing and lending requirements and agrees to originate loans meeting the commissioner’s underwriting guidelines.

After the state issues all the \$5 million in bonds, DECD must exchange all the loans and credit facilities it acquired from the banks. It must exchange this debt as simple whole loans with the U.S. Treasury for an amount that at least equals the debt plus origination costs. The bill does not specify where the commissioner must deposit the proceeds from the exchange.

STATE ASSISTED FUND AND EXCHANGE COMMITTEE

The bill establishes a six-member interagency committee to advise the DECD commissioner about providing liquid capital and preparing the guidelines for doing so. The committee consists of one employee each from the Banking Department, Office of Policy and Management, Treasurer’s Office, Comptroller’s Office, the Connecticut Development Authority, and DECD.

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute

Yea 17 Nay 2 (03/10/2009)